Responses to Written Questions on the Economic and Social Crisis in Greece by Several Political Groups Within the European Parliament

by

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1. European People's Party (EPP)

The EPP's questions ask whether there is a campaign to hide the reasons of the crisis and to blame Europe and the Troika; whether the financial support provided to Greece is sufficiently appreciated in Greece; and whether the Commission, ECB, and IMF are aware of an "alternative Troika" established by another political group.

The work of Commission, ECB and IMF in the context of the so-called Troika is forward-looking and solution-oriented. It focuses on assisting Greece in reforming its economy and improving medium-term employment and growth opportunities. The adjustment and reform effort that is necessary to achieve this is substantial and the success is not guaranteed. The enormous size of the effort reflects the severity of the macroeconomic imbalances that had cumulated since Greece's accession to the monetary union, most notably on account of the very large competitiveness gap and unsustainable fiscal policy prior to the crisis. Each of our institutions has, in past reports and public statements, raised attention to the accumulation of such imbalances in several euro area economies and in particular in Greece.

The efforts taken by the Greek government to correct the policy mistakes that led to these imbalances has been substantial, but it will have to be sustained for several years ahead. It is, therefore, not constructive that certain observers in the public debate: (i) fail to sufficiently recognise the progress already made by Greece; or (ii) present the policy measures adopted by the Greek Government under the programme as responsible for the current recession rather than consequential to the deep structural changes needed to eliminate Greece's dependence on external borrowing.

The financial assistance provided to Greece to cushion the impact of the necessary adjustment effort is unprecedented. This reflects a political commitment by the international community to support Greece's adjustment, and in particular the commitment by the leaders and the national parliaments of the euro area that Greece will remain a member of the euro area. A decisive response to the problems in Greece is also a fundamental element of the strategy to resolve the broader crisis in the euro area. The full implementation of the adjustment programme is the litmus test for Greece's commitment to reciprocate the support from its peers. The task of the Troika is to enable the provision of this financial assistance to Greece by supporting the authorities' adjustment efforts through technical assistance and by monitoring its progress vis-à-vis its commitments towards its official creditors.

We are not aware of any coherent and comprehensive alternative proposal for rebuilding the Greek economy. A debate on possible alternative policy options is always welcome. But one should refrain from creating false expectations: Restoring sustained growth in Greece crucially hinges on the prompt correction of macroeconomic imbalances, in particular the reduction in the fiscal deficit, which will help bringing the debt ratio to a sustainable path, and the improvement in the external current account on the back of comprehensive structural reforms to close the competitiveness gap. Moreover, given the loss of market access and the fixed envelope for official support, calls for a loosening of the fiscal stance are not consistent with the financial constraints Greece is facing and therefore unwarranted.

Greece has committed to the implementation of the programme. Greece should now be given the opportunity to implement it. It would be unhelpful to Greece and counter-productive for programme implementation to pretend that there is an easy way out of a difficult situation.

2. Alliance of Liberals and Democrats for Europe (ALDE)

ALDE's questions focus on three different areas, on the strength and weaknesses of the Troika, on the loss of confidence in the Greek economy and on an investment programme, which could be financed by privatisation receipts.

The Troika is not a formal organisation. It is the result of the close cooperation between three different institutions that have commissioned to jointly help design and monitor the Greece adjustment programme. Each of the three organisations brings to their common work a wealth of experience in the design and surveillance of economic policies. Their respective focus and expertise complement each other. In combination, the work of the Troika ensures that the political decisions on the adjustment programme (by Greece, the Eurogroup and the IMF Executive Board) are properly prepared in a timely manner and that programme implementation and policy conditionality are closely monitored.

ALDE has rightly identified the loss of confidence as a major issue. Indeed, the need for economic adjustment supported by financial assistance emanates from macroeconomic imbalances that became unsustainable and triggered a loss of confidence in international financial markets and a concomitant stop of private financing flows. Confidence and, eventually, renewed market access will be restored by establishing a track record of sound policies and the reduction in macroeconomic imbalances.

ALDE criticises the reduction in wages in the private sector as this could contribute to aggravating the recession and the loss in confidence. Both the Commission and the IMF in their reports have explicitly indicated that the reduction in private sector wages (resulting from the bargaining between employers and employees and the Greek Parliament's decision to reduce the minimum wages) will contribute to contract domestic demand. However, while reforms under the first programme helped improve competitiveness to some extent, the remaining competitiveness gap is still large. Closing this gap, while remaining in the euro area, will require a more pronounced internal devaluation. The agreed reduction in minimum wages in the private sector and modifications of wage-setting procedures, including the rules on the expiration of collective agreements and the arbitration of wage disputes, are key elements of the strategy to accelerate the internal devaluation. However, we concur with ALDE that the reduction in wage costs would not be successful in promoting growth and jobs, if it is not complemented by comprehensive structural reforms in product and services markets designed to increase internal competition and productivity. Without these reforms, improvements in competitiveness will take long to materialise, or may be achieved only through a compression of imports and an unemployment-driven reduction in labour costs.

ALDE suggests a special investment programme financed by privatisation receipts. Besides its contribution to covering the government's financial needs, the privatisation plan is crucial for re-launching growth, modernising the economy and attracting foreign direct investment. Therefore, we do agree that there is a direct link between privatisation and promoting productive private investments. However, using privatisation receipts for financing public investment would perceptibly slow down the reduction in the Greek public debt, thereby compounding concerns about debt sustainability and delaying market access. Moreover, a programme of public investments financed by privatisation could run against the programme objective of reducing the government's footprint on the economy.

3. The Greens / European Free Alliance (Greens/EFA)

Most questions by the Greens/EFA relate to the debt sustainability analyses that are jointly prepared by the Troika. In this context, the Honourable Members of Parliament are referred to the latest reports on Greece by the Commission (in liaison with the ECB) and by the IMF staff (http://ec.europa.eu/economy_finance/publications/occasional_paper/2012/pdf/ocp94_en.pdf and http://www.imf.org/external/pubs/cat/longres.aspx?sk=25781.0) which contain updated debt sustainability analyses.

Our latest common projections indicate that under a baseline scenario, Greece's debt ratio would decline to 116.5 percent of GDP by 2020. This is a projection based on a baseline scenario on growth, fiscal accounts, privatisation, bank recapitalisation, etc, which assumes that the programme conditionality will be fully implemented. However, a debt projection with a time horizon of a decade or more is subject to many upside and downside risks. It is standard practice for debt sustainability analyses to assess the sensitivity of the projection to various risks. In particular, debt dynamics are extremely sensitive to slippages in the implementation of the programme that would result in delayed fiscal consolidation, lower privatisation proceeds or weaker economic growth. It would have been irresponsible not to have indicated those risks to the policy makers and to the public.

If the downside risks highlighted in our reports materialise, the debt-to-GDP ratio would decline more slowly, get stuck at an unsustainably high level or even increase further. In those events, the scenario of Greece returning to the financial markets at the end of the programme would become even more distant. This would most likely require additional official financing.

As indicated in our reports and mentioned in one of the questions, there is some short-term tension between the programme objectives of reducing the fiscal deficit and restoring competitiveness. Greece has suffered from unsustainable imbalances in both the external and the fiscal accounts and more progress is needed on both fronts to correct them. Greece has to restore competitiveness through an ambitious internal devaluation, i.e., a reduction in prices and production costs relative to its competitors, as well as a shift from a consumption-led to an export- and investment-led economy. Since increases in productivity only materialise over time, an upfront reduction in nominal wage and non-wage costs is necessary. However, it complicates fiscal adjustment through the short- and medium-term impact of the internal devaluation on nominal GDP and, concomitantly, tax bases. Moreover, when recovery takes hold, the composition of growth is expected to be less tax-rich than in previous upswings. This tension requires determination in the adoption of competitiveness-improving and fiscal deficit-reducing measures and implies that the adjustment process will have to last several years. To mitigate this short-term tension, the programme envisages a strongly expenditure-based consolidation strategy, which is less sensitive to changes in cyclical conditions and, vice versa, less harmful for growth.

As the Greens/EFA indicate in their question, the growth projections of May 2010 on which the first programme was based turned out to be too optimistic. While the 2010 GDP outcome (-3.5 percent) was very close to the initial projection (-4.0 percent), the 2011 outcome (-6.9 percent) fell significantly short of the original projection (-2.6 percent). Several factors contributed to the worse-than-originally-forecast outcome: the discussion on and eventual adoption of private sector involvement (PSI) increased economic uncertainty and risk aversion on the side of investors and consumers. This was compounded by a lack of a broad-based consensus in favour of several key reforms and, at times, heightened political uncertainty. As a result, insufficient progress has been made in respect to a number of growth-enhancing structural reforms. Moreover, higher-than-originally estimated fiscal deficits in 2009 and 2010 implied the need to adopt more measures than initially planned to minimise the fiscal gap. Finally, the external economic environment was less supportive than originally assumed. Due to these worse-than-expected macroeconomic developments and persistent slippages vis-à-vis fiscal targets, the amount of official financing under the programme indeed is now set to exceed the overall envelope originally envisaged under the first programme. While these costs would have been recognised earlier in the process had the initial forecasts been more accurate, they would not have been avoided.

The Greens/EFA have also asked about the total financial support provided or to be provided to Greece by the euro area Member States and the IMF. From May 2010 to end-2014, total official financing is expected to reach €203 billion. Moreover, the IMF has already committed €8 billion for the period from 2015 to the first quarter of 2016.

Finally the Greens/EFA have asked about expected privatisation receipts. We are of the view that the target of collecting €50 billion in privatisation receipts remains viable, although over a longer horizon than initially envisaged. At the same time, the recapitalisation of banks through the Hellenic Financial Stability Fund will add to the pool of privatisable assets. In 2010-2014, privatisation receipts are expected to amount to €19 billion.

4. European Conservatives and Reformists (ECR)

The ECR group asks about the mechanisms to ensure that Greece will not miss the deficit and debt targets and whether a debt of 120 percent of GDP is sustainable.

The success of the second programme depends primarily on Greece. It crucially hinges on the full and timely implementation of fiscal consolidation and growth-enhancing structural reforms agreed under the programme. The successful debt exchange should help strengthen the reform momentum and build a consensus in favour of the difficult reforms that still lie ahead. The continuation of the very comprehensive international financial assistance can only be expected if policy implementation improves. The determination of the Greek authorities to stick to the agreed policies will be tested already in the coming months when the deficit-reducing measures to close the large gap for 2013-14 need to be identified. In a similar vein, generating sustained growth and employment will require stronger efforts to overcome the resistance of vested interests. The implementation of structural measures—from product and service market liberalization to business environment reforms, the fight against tax evasion and the reduction in public employment—will have to overcome bureaucratic delays, the resistance of lobbies and vested interests and break longstanding policy taboos. This requires the Government's determination, enhanced political coordination, as well as the consensus of the whole Greek Society.

The concept of the sustainability of the public finances relates to the ability of a government to assume the financial burden of its debt currently and going forward. There is no clear-cut definition of a sustainable fiscal position, though the concept is rather intuitive. At a first instance it involves a debt level that does not entail – either now or in the foreseeable future – interest payments so large that they cannot be paid. The sustainability of public debt cannot be judged on the basis of one single number. It is more about the trend developments. However, a high debt ratio – even when declining – may not be sustainable because it is more subject to adverse developments, like a slowdown or contraction in economic activity or a higher-than expected deficit. In that sense a debt ratio of 120 percent of GDP raises more sustainability risks than a lower ratio.

5. European Freedom and Democracy (EFD)

EFD questions are on privatisation. The issue whether companies that will be privatised would be obliged to continue trading their shares at the Athens stock exchange has not been discussed between the Greek Government and the Troika.

Privatisation should be conducted in a transparent manner, according to internal market and EU competition rules.

6. Non-Attached Members (NI)

The NI group has asked for the view of the Troika on whether the replacement of Mr. Papandreou by Mr. Papademos was a legitimate democratic act. The replacement of the Greek Prime Minister was decided by the President of the Hellenic Republic and the Parliament, according to the Greek Constitution. The Troika has no other comments on this process.

The NI group asked also whether the economic adjustment programme in a number of EU countries will lead to economic growth. Overcoming the sovereign debt crisis in a number of euro area Member States requires the correction of macroeconomic imbalances, including a reduction in the fiscal deficit. Overcoming these imbalances is a necessary condition for achieving sustainable growth and the creation of jobs, which are the ultimate objectives of the adjustment programme.

Moreover, the NI members have several questions, on the ESM Treaty and EU 2020 strategy, which are not directly related to the work of the Troika in Greece.

Concerning the questions on the statute of the ESM board members, their democratic legitimacy, the external control over the expenditures of the ESM, whether the Commission will propose candidates for the management of the ESM Fund, and the voting rules in the ESM, the reply by the Commission is as follows: Member of the ESM board of governors will have a status comparable to that of Governors of other international financial institutions, such as the European Bank for Reconstruction and Development (EBRD), World Bank or the International Monetary Fund. The members of the ESM Board of Governors will be appointed by the governments of the euro area Member States, which will also choose the managing director of the institution.

The NI group has also asked about the goals of the EU 2020 strategy. In its Annual Growth Survey 2012, the Commission has evaluated progress towards the objectives of Europe 2020 strategy. The analysis shows that commitments set by Member States in their 2011 National Reform Programmes are not sufficient and that stronger efforts will be necessary to ensure that the agreed targets will be reached by 2020. The purpose of the targets is to generate momentum with each Member State committing to make measurable progress. The current difficult economic context and ongoing fiscal consolidation are constraining the level of ambition. However, with further efforts over the coming years, it will still be possible to reach to objectives by 2020.

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